



STATE OF ARIZONA
OFFICE OF THE GOVERNOR

DOUGLAS A. DUCEY
GOVERNOR

EXECUTIVE OFFICE

June 7, 2019

The Honorable Katie Hobbs
Secretary of State
1700 W. Washington, 7th Floor
Phoenix, AZ 85007

Re: House Bill 2677 (JLAC; auditor general)

Dear Secretary Hobbs:

Today, I vetoed H.B. 2677.

I appreciate Representative Kern's efforts to identify fraud, waste, and improper use of public monies.

However, I am concerned this legislation may have unintended consequences.

I remain committed to finding ways to continuously improve government.

Sincerely,

Douglas A. Ducey
Governor
State of Arizona

cc: The Honorable Rusty Bowers
The Honorable Anthony Kern
The Honorable Karen Fann

State of Arizona
House of Representatives
Fifty-fourth Legislature
First Regular Session
2019

HOUSE BILL 2677

AN ACT

AMENDING SECTIONS 15-393.01, 28-6392, 28-6533, 41-1278 AND 41-1279.02, ARIZONA REVISED STATUTES; AMENDING SECTION 41-1279.03, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 3, SECTION 11; AMENDING SECTIONS 41-1279.04, 41-1279.06, 41-1279.07 AND 41-1279.21, ARIZONA REVISED STATUTES; REPEALING SECTION 41-1279.22, ARIZONA REVISED STATUTES; AMENDING SECTION 41-2954, ARIZONA REVISED STATUTES; RELATING TO THE AUDITOR GENERAL.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 15-393.01, Arizona Revised Statutes, is amended to read:

15-393.01. Career technical education districts; annual report; performance and accountability

A. The department of education shall include each career technical education district in the department's annual achievement profiles required by section 15-241. Subject to approval by the state board of education, the department of education shall develop specific criteria applicable to career technical education districts that may not be based solely on the criteria prescribed in the Carl D. Perkins vocational education act, as amended by the Carl D. Perkins vocational and applied technology education act amendments of 1990, as amended by the Carl D. Perkins vocational and technical education act of 1998, and shall include career technical education districts in the letter grade classification system prescribed in section 15-241. The department shall include all of the following performance indicators in the annual achievement profiles and letter grade classification and provide a copy of the information to each career technical education district governing board:

1. The graduation rate of all students enrolled in a career and technical education program or course.

2. The completion rate for each program offered by the career technical education district.

3. Performance on assessments required pursuant to section 15-391, paragraph 4, subdivision (b).

4. Postgraduation employment rates, postsecondary enrollment rates and military service rates for students who complete a career and technical education program.

B. A career technical education district is subject to the performance audits pursuant to section 41-1279.03, subsection A, paragraph ~~9~~ 8. The auditor general shall consider the differences and applicable laws for a career technical education district when conducting a performance audit for a career technical education district.

C. On or before December 31 of each year, the career and technical education division of the department of education shall submit a career technical education district annual report to the governor, the president of the senate and the speaker of the house of representatives and shall submit a copy of this report to the secretary of state. The career and technical education division of the department of education shall submit a copy of this report to the joint legislative budget committee for review. The annual report shall include the following:

1. The average daily membership of each career technical education district, including the average daily membership of each centralized campus, satellite campus and leased centralized campus as defined in section 15-393.

1 2. The actual student count of each career technical education
2 district, including the student count of each centralized campus,
3 satellite campus and leased centralized campus as defined in section
4 15-393.

5 3. The programs and corresponding courses offered by each career
6 technical education district, including the location of each program and
7 course.

8 4. For each career technical education district based on program or
9 course location:

10 (a) The student enrollment of each program and corresponding
11 course.

12 (b) The percentage of students who enrolled in the second year of
13 each program and corresponding course relative to the number of students
14 in the same cohort who enrolled in the first year of each program and
15 corresponding course.

16 (c) The percentage of students who completed each program relative
17 to the number of students in the same cohort who began the program.

18 5. The costs associated with each program offered by the career
19 technical education district.

20 6. A listing of any programs or courses that were discontinued by
21 review of the career and technical education division pursuant to section
22 15-393, subsection V.

23 7. A listing of any programs or courses that were continued by
24 review of the career and technical education division pursuant to section
25 15-393, subsection V.

26 8. A listing of any programs or courses that were added by the
27 career and technical education division.

28 9. For applicable school districts, the required maintenance of
29 effort and how monies were used to supplement and not supplant base year
30 career and technical education courses, including expenditures related to
31 personnel, equipment and facilities.

32 10. Any other data or information deemed necessary by the
33 department of education.

34 D. The office of the auditor general, in consultation with the
35 department of education, shall develop and establish uniform cost
36 reporting guidelines, policies and procedures for career technical
37 education district programs. Any guideline, policy or procedure shall
38 allow for the effective comparison of cost between career technical
39 education district programs.

40 Sec. 2. Section 28-6392, Arizona Revised Statutes, is amended to
41 read:

42 28-6392. County regional area road fund; distribution;
43 repayment of misused monies; investment

44 A. Each month the state treasurer shall distribute the monies in
45 the county's regional area road fund to the individual county and to the

1 individual cities and towns in the county in the manner that is determined
2 by the board of supervisors before the election and that is described in
3 the publicity pamphlet for the election.

4 B. The jurisdiction receiving the revenues may only use the
5 revenues for street and highway purposes or for transportation projects
6 included in the regional transportation plan of the county as prepared by
7 the county regional planning agency. If the auditor general reports to
8 the department after conducting a performance audit pursuant to section
9 41-1279.03, subsection A, paragraph ~~6~~ 5 that a jurisdiction has not used
10 revenues as provided in this subsection:

11 1. The department shall require the jurisdiction to directly repay
12 the fund the full amount of the misused monies beginning immediately as a
13 lump sum or in consecutive annual payments of at least ten percent of the
14 full amount each fiscal year.

15 2. If the jurisdiction fails to timely and fully repay the fund as
16 required by paragraph 1 of this subsection, the department shall notify
17 the state treasurer who shall withhold the noncomplying jurisdiction's
18 revenues until the noncomplying jurisdiction presents evidence that is
19 satisfactory to the auditor general and that shows that the jurisdiction
20 has spent monies for purposes prescribed in this subsection from another
21 general revenue source equal to the amount of the revenues diverted from
22 the uses prescribed in this subsection.

23 C. The state treasurer shall invest and divest monies in the
24 county's regional area road fund as provided by section 35-313, and monies
25 earned from investment shall be credited to the fund.

26 Sec. 3. Section 28-6533, Arizona Revised Statutes, is amended to
27 read:

28 28-6533. Arizona highway user revenue fund; reports

29 A. The officer collecting all highway user revenues, as defined in
30 section 28-6501 and in article IX, section 14, Constitution of Arizona,
31 and all fees, penalties and fines collected under sections 28-1101,
32 28-1103, 28-1105 and 28-1521 shall transfer the revenues to the
33 department. After the deduction of all exemptions and refunds and after
34 taking actions required under subsection C of this section, the department
35 shall immediately deposit, pursuant to sections 35-146 and 35-147, the
36 revenues in a fund designated as the Arizona highway user revenue fund.

37 B. The revenues in the Arizona highway user revenue fund shall only
38 be spent for the purposes prescribed in article IX, section 14,
39 Constitution of Arizona. Counties and incorporated cities and towns shall
40 not spend highway user revenue fund monies distributed to them pursuant to
41 this article for enforcement of traffic laws or administration of traffic
42 safety programs. If the auditor general reports to the state treasurer
43 after conducting a performance audit pursuant to section 41-1279.03,
44 subsection A, paragraph ~~7~~ 6 that a jurisdiction has not used revenues as
45 required by this subsection, the state treasurer shall withhold the

1 noncomplying jurisdiction's revenues until the noncomplying jurisdiction
2 presents evidence that is satisfactory to the auditor general and that
3 shows that the jurisdiction has spent monies for purposes prescribed in
4 this subsection from another general revenue source equal to the amount of
5 the revenues diverted from the uses prescribed in this subsection.

6 C. If there is any default, the department shall deduct all amounts
7 required by law or any resolution authorizing the issuance of bonds of the
8 board to be placed in the principal funds, interest funds, reserve funds
9 or sinking funds or any other funds established to service bonds issued or
10 to be issued by the board before the revenues are deposited in the Arizona
11 highway user revenue fund.

12 D. A county receiving monies pursuant to section 28-6538 shall
13 publish an annual financial report for the prior fiscal year of funds
14 received from motor vehicle fuel and use fuel taxes. The financial report
15 shall contain budgeted and actual expenditures for the preceding fiscal
16 year and shall be prepared and distributed by December 31 by the county.

17 Sec. 4. Section 41-1278, Arizona Revised Statutes, is amended to
18 read:

19 41-1278. Definitions

20 In this article, unless the context otherwise requires:

21 1. "Committee" means the joint legislative audit committee.

22 2. "Investigation" means an inquiry into specified acts or
23 allegations of impropriety, malfeasance or nonfeasance in the obligation,
24 expenditure, receipt or use of public funds of this state MONIES or into
25 specified financial transactions or practices ~~which~~ THAT may involve such
26 impropriety, malfeasance or nonfeasance.

27 3. "Performance audit" means an audit ~~which~~ THAT determines with
28 regard to the purpose, functions and duties of the audited agency ~~at~~ ONE
29 OR MORE of the following:

30 (a) Whether the audited agency is managing or ~~utilizing~~ USING its
31 resources, including public funds MONIES of this state, personnel,
32 property, equipment and space, in an economical and efficient manner.

33 (b) Causes of inefficiencies or uneconomical practices, including
34 inadequacies in management information systems, internal and
35 administrative procedures, organizational structure, use of resources,
36 allocation of personnel, purchasing policies and equipment.

37 (c) Whether the desired results are being achieved.

38 (d) Whether objectives established by the legislature or other
39 authorizing body are being met.

40 4. "Special audit" means an audit of limited scope.

41 5. "Special research request" means research and analysis of issues
42 or questions that are designated as a special research request by the
43 committee, but does not include a performance audit, financial audit,
44 compliance audit, procedural review, special audit, investigation or
45 evaluation required by law.

1 6. "State agency" means all departments, agencies, boards,
2 commissions, institutions and instrumentalities of this state.

3 Sec. 5. Section 41-1279.02, Arizona Revised Statutes, is amended to
4 read:

5 41-1279.02. Personnel; criminal history records

6 A. The auditor general ~~may~~, with the approval of the committee, MAY
7 appoint and prescribe the duties of such additional professional,
8 technical, clerical and other employees, or contract for such services,
9 necessary to administer the duties of the auditor general's office. The
10 employees shall receive compensation as determined pursuant to section
11 38-611 and serve at the pleasure of the auditor general.

12 B. The auditor general may obtain criminal history record
13 information pursuant to section 41-1750, subsection G from the department
14 of public safety for the purpose of employment of personnel by the auditor
15 general.

16 C. Information obtained pursuant to subsection B of this section
17 shall not be disclosed by the auditor general except to members of the
18 auditor general's staff PURSUANT TO THE REQUIREMENTS PRESCRIBED BY THE
19 DEPARTMENT OF PUBLIC SAFETY AND solely for the purpose of employment of
20 personnel by the auditor general.

21 Sec. 6. Section 41-1279.03, Arizona Revised Statutes, as amended by
22 Laws 2019, chapter 3, section 11, is amended to read:

23 41-1279.03. Powers and duties

24 A. The auditor general shall:

25 1. Prepare an audit plan for approval by the committee and report
26 to the committee the results of each audit and investigation and other
27 reviews conducted by the auditor general.

28 2. Conduct or cause to be conducted ~~at least biennial~~ ANNUAL
29 financial and compliance audits of financial transactions and accounts
30 kept by or for all state agencies subject to the FEDERAL single audit ~~act~~
31 ~~of 1984 (P.L. 98-502)~~ REQUIREMENTS. The audits shall be conducted in
32 accordance with generally accepted governmental auditing standards and
33 accordingly shall include tests of the accounting records and other
34 auditing procedures as may be considered necessary in the circumstances.
35 The audits shall include the issuance of suitable reports as required by
36 the FEDERAL single audit ~~act of 1984 (P.L. 98-502)~~ REQUIREMENTS so that
37 the legislature, the federal government and others will be informed as to
38 the adequacy of financial statements of ~~the~~ THIS state in compliance with
39 generally accepted ~~governmental~~ accounting principles and to determine
40 whether this state has complied with laws and regulations that may have a
41 material effect on the financial statements and on major federal
42 assistance programs.

1 3. Perform procedural reviews for all state agencies at times
2 determined by the auditor general. These reviews may include evaluation
3 of administrative and accounting internal controls and reports on these
4 reviews.

5 4. Perform special research requests, special audits and related
6 assignments as designated by the committee and conduct performance audits,
7 special audits, special research requests and investigations of any state
8 agency, whether created by the constitution or otherwise, as may be
9 requested by the committee.

10 ~~5. Annually on or before the fourth Monday of December, prepare a~~
11 ~~written report to the governor and to the committee that contains a~~
12 ~~summary of activities for the previous fiscal year.~~

13 ~~6.~~ 5. In the ~~tenth~~ FIFTH year and in each fifth year thereafter in
14 which a transportation excise tax is in effect in a county as provided in
15 section 42-6106 or 42-6107, conduct a performance audit that:

16 (a) Reviews past expenditures and future planned expenditures of
17 the transportation excise revenues and determines the impact of the
18 expenditures in solving transportation problems within the county and, for
19 a transportation excise tax in effect in a county as provided in section
20 42-6107, determines whether the expenditures of the transportation excise
21 revenues comply with section 28-6392, subsection B.

22 (b) Reviews projects completed to date and projects to be completed
23 during the remaining years in which a transportation excise tax is in
24 effect. Within six months after each review period, the auditor general
25 shall present a report to the speaker of the house of representatives and
26 the president of the senate detailing findings and making recommendations.

27 (c) Reviews, determines, reports and makes recommendations to the
28 speaker of the house of representatives and the president of the senate
29 whether the distribution of ARIZONA highway user revenues complies with
30 title 28, chapter 18, article 2.

31 ~~7.~~ 6. If requested by the committee, conduct performance audits of
32 counties and incorporated cities and towns receiving ARIZONA highway user
33 revenue fund monies pursuant to title 28, chapter 18, article 2 to
34 determine whether the monies are being spent as provided in section
35 28-6533, subsection B.

36 ~~8.~~ 7. Perform special audits designated pursuant to law if the
37 auditor general determines that there are adequate monies appropriated for
38 the auditor general to complete the audit. If the auditor general
39 determines the appropriated monies are inadequate, the auditor general
40 shall notify the committee. BASED ON INFORMATION PROVIDED BY THE AUDITOR
41 GENERAL, FOR ANY LEGISLATIVE MEASURE THAT REQUIRES THE AUDITOR GENERAL TO
42 PERFORM A SPECIAL AUDIT, THE JOINT LEGISLATIVE BUDGET COMMITTEE STAFF
43 SHALL NOTIFY ALL THE MEMBERS OF THE LEGISLATURE AS SOON AS PRACTICABLE OF
44 THE COST TO CONDUCT THE SPECIAL AUDIT.

1 ~~9.~~ 8. Establish a schoolwide audit team in the office of the
2 auditor general to conduct performance audits and monitor school districts
3 to determine the percentage of every dollar spent in the classroom by the
4 school district. Each school district shall prominently post on its
5 website home page a copy of its profile pages that displays the percentage
6 of every dollar spent in the classroom by that school district from the
7 most recent status report issued by the auditor general pursuant to this
8 paragraph. ~~The performance audits shall determine whether school~~
9 ~~districts that receive monies from the Arizona English language learner~~
10 ~~fund established by section 15-756.04 and the statewide compensatory~~
11 ~~instruction fund established by section 15-756.11 comply with title 15,~~
12 ~~chapter 7, article 3.1.~~ The auditor general shall determine, through
13 random selection, the school districts to be audited each year, subject to
14 review by the joint legislative audit committee. A school district that
15 is subject to an audit pursuant to this paragraph shall notify the auditor
16 general in writing whether the school district agrees or disagrees with
17 the findings ~~and recommendations~~ of the audit and whether the school
18 district will implement the ~~findings and~~ recommendations, implement
19 modifications to the findings and recommendations or refuse to implement
20 the ~~findings and~~ recommendations. The school district shall submit to the
21 auditor general a written status report on the implementation of the audit
22 ~~findings and recommendations every six months for two years after~~ AT THE
23 REQUEST OF THE AUDITOR GENERAL WITHIN THE TWO-YEAR PERIOD FOLLOWING THE
24 ISSUANCE OF an audit conducted pursuant to this paragraph. The auditor
25 general shall review the school district's progress toward implementing
26 the ~~findings and recommendations of the audit every six months after~~
27 ~~receipt of the district's status report for two years~~ AND PROVIDE STATUS
28 REPORTS OF THESE REVIEWS TO THE JOINT LEGISLATIVE AUDIT COMMITTEE DURING
29 THIS TWO-YEAR PERIOD. The auditor general may review a school district's
30 progress beyond this two-year period for recommendations that have not yet
31 been implemented by the school district. ~~The auditor general shall~~
32 ~~provide a status report of these reviews to the joint legislative audit~~
33 ~~committee.~~ The school district shall participate in any hearing scheduled
34 during this review period by the joint legislative audit committee or by
35 any other legislative committee designated by the joint legislative audit
36 committee.

37 ~~10.~~ 9. Annually review per diem compensation and reimbursement of
38 expenses for employees of this state and members of a state board,
39 commission, council or advisory committee by judgmentally selecting
40 samples and evaluating the propriety of per diem compensation and expense
41 reimbursements.

42 B. The auditor general may:

43 1. Subject to approval by the committee, adopt rules necessary to
44 administer the duties of the office.

2. Hire consultants to conduct the studies required by subsection A, paragraphs ~~6~~ 5 and ~~7~~ 6 of this section.

C. If approved by the committee, the auditor general may charge a reasonable fee for the cost of performing audits or providing accounting services for auditing federal funds, special audits or special services requested by political subdivisions of this state. Monies collected pursuant to this subsection shall be deposited in the audit services revolving fund.

D. The department of transportation, THE COUNTY TREASURER AND the board of supervisors of a county that has approved a county transportation excise tax as provided in section 42-6106 or 42-6107 and the governing bodies of counties, cities and towns receiving ARIZONA highway user revenue fund monies shall cooperate with and provide necessary information to the auditor general or the auditor general's consultant.

E. The department of transportation OR COUNTY TREASURER shall reimburse the auditor general as follows, and the auditor general shall deposit the reimbursed monies in the audit services revolving fund:

1. For the cost of conducting the studies or hiring a consultant to conduct the studies required by subsection A, paragraph ~~6~~ 5, subdivisions (a) and (b) of this section, from monies collected pursuant to a county transportation excise tax levied pursuant to section 42-6106 or 42-6107.

2. For the cost of conducting the studies or hiring a consultant pursuant to subsection A, paragraph ~~6~~ 5, subdivision (c) and paragraph ~~7~~ 6 of this section, from the Arizona highway user revenue fund.

Sec. 7. Section 41-1279.04, Arizona Revised Statutes, is amended to read:

41-1279.04. Authority to examine records; violation;
classification

A. The auditor general or the auditor general's authorized representatives, in the performance of official duties, shall have access to EMPLOYEES, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files and other records, bank accounts, criminal history record information as defined in section 41-1701 AND IN ACCORDANCE WITH SECTION 41-1750, ~~money~~ MONIES and other property of any state agency, board, commission, department, institution, program, advisory council or committee or political subdivision of this state, whether created by the constitution or otherwise, or such documents and property of a contractor relating to a contract with this state pursuant to ~~the provisions of~~ section 35-214. It is the duty of any officer or employee of any such agency or political subdivision, having such records under the officer's or employee's control, to permit access to and examination of the records on the request of the auditor general or the auditor general's authorized representative.

B. For the purpose of complying with section 41-1279.03, subsection A, paragraphs 4 and ~~9~~ 8, the auditor general or the auditor general's

1 authorized representative, in the performance of official duties, may
2 attend executive sessions of the governing body of any state agency or
3 school district in this state.

4 C. For the purpose of auditing the department of revenue, the
5 auditor general and the auditor general's authorized representatives have
6 access to state tax returns, except that a report of the auditor general
7 shall not violate the confidentiality of state tax laws.

8 D. ALL OFFICERS OF ANY STATE AGENCY, BOARD, COMMISSION, DEPARTMENT,
9 INSTITUTION, PROGRAM, ADVISORY COUNCIL OR COMMITTEE OR POLITICAL
10 SUBDIVISION OF THIS STATE SHALL AFFORD REASONABLE AND NEEDED FACILITIES
11 FOR AUDITOR GENERAL STAFF AND MAKE RECORDS AVAILABLE, IN THE FORM AND AT
12 THE TIME PRESCRIBED.

13 E. THE ATTORNEY GENERAL SHALL SUPERVISE THE PROSECUTION OF ALL
14 OFFENDERS UNDER THIS SECTION.

15 ~~D.~~ F. Any officer or person who knowingly fails or refuses to
16 ~~permit such~~ ALLOW access and examination PURSUANT TO THIS SECTION OR
17 OTHERWISE KNOWINGLY OBSTRUCTS OR MISLEADS THE AUDITOR GENERAL IN THE
18 EXECUTION OF THE AUDITOR GENERAL'S DUTIES is guilty of a class 2
19 misdemeanor.

20 Sec. 8. Section 41-1279.06, Arizona Revised Statutes, is amended to
21 read:

22 41-1279.06. Audit services revolving fund; use; exemption
23 from lapsing

24 A. ~~There is established an~~ THE audit services revolving fund IS
25 ESTABLISHED. The auditor general shall administer the fund. The fund
26 consists of any monies received by the auditor general from:

27 1. State budget units for audits of federal funds required under
28 federal law and federal rules and regulations.

29 2. State budget units and counties, community college districts and
30 school districts for which the auditor general performs special audits,
31 financial statement audits, AUDITS OF FEDERAL FUNDS RECEIVED UNDER FEDERAL
32 LAWS, RULES AND REGULATIONS or provides accounting services.

33 3. COUNTIES FOR WHICH THE AUDITOR GENERAL CONDUCTS A PERFORMANCE
34 AUDIT OF THE TRANSPORTATION EXCISE TAX AS PRESCRIBED BY SECTION
35 41-1279.03.

36 4. ANY OTHER SOURCE AUTHORIZED BY STATUTE.

37 B. The auditor general shall use the fund monies for the purpose of
38 conducting audits required under federal law, special audits or financial
39 statement audits or accounting services requested by state budget units
40 and counties, community college districts and school districts or to pay
41 for certified public accountants to conduct such audits or provide such
42 services.

43 C. Monies in the audit services revolving fund are exempt from the
44 provisions of section 35-190, relating to lapsing of appropriations.

1 Sec. 9. Section 41-1279.07, Arizona Revised Statutes, is amended to
2 read:

3 41-1279.07. Uniform expenditure reporting system; reports by
4 counties, community college districts, cities
5 and towns; certification and attestation;
6 assistance by auditor general; violation;
7 classification

8 A. The auditor general shall prescribe a uniform expenditure
9 reporting system for all political subdivisions subject to the
10 constitutional expenditure limitations prescribed by article IX, sections
11 20 and 21, Constitution of Arizona. The system shall include:

12 1. For counties:

13 (a) An annual expenditure limitation report that includes at least
14 the following information:

15 (i) The expenditure limitation established for the reporting fiscal
16 year by the economic estimates commission.

17 (ii) Total expenditures, by fund, for the reporting fiscal year.

18 (iii) Total exclusions from local revenues, as defined by article
19 IX, section 20, Constitution of Arizona, by fund, for the reporting fiscal
20 year.

21 (iv) Total amounts, by fund, of expenditures subject to the
22 expenditure limitation for the reporting fiscal year.

23 (b) Annual financial statements prepared in accordance with
24 generally accepted accounting principles.

25 (c) A reconciliation of the total expenditures reported within the
26 financial statements to the total expenditures stated within the
27 expenditure limitation report.

28 2. For community college districts:

29 (a) An annual budgeted expenditure limitation report that includes
30 at least the following information:

31 (i) The expenditure limitation established for the reporting fiscal
32 year by the economic estimates commission.

33 (ii) Total budgeted expenditures, ~~by fund,~~ for the reporting fiscal
34 year.

35 (iii) Total exclusions from local revenues, as defined by article
36 IX, section 21, Constitution of Arizona, ~~by fund,~~ for the reporting fiscal
37 year.

38 (iv) Total amounts, ~~by fund,~~ of budgeted expenditures subject to
39 the expenditure limitation for the reporting fiscal year.

40 (b) Annual financial statements prepared in accordance with
41 generally accepted accounting principles.

42 ~~(c) A reconciliation of the total expenditures reported within the~~
43 ~~financial statements to the total expenditures reported within the~~
44 ~~expenditure limitation report.~~

1 3. For cities and towns:

2 (a) An annual expenditure limitation report that includes at least
3 the following information:

4 (i) The expenditure limitation established for the reporting fiscal
5 year by the economic estimates commission and, if applicable, the voter
6 approved alternative expenditure limitation.

7 (ii) Total expenditures, by fund, for the reporting fiscal year.

8 (iii) Total exclusions from local revenues, as defined by article
9 IX, section 20, Constitution of Arizona, by fund, for the reporting fiscal
10 year or, if applicable, the total exclusions from the voter approved
11 alternative expenditure limitation.

12 (iv) Total amounts, by fund, of expenditures subject to the
13 expenditure limitation for the reporting fiscal year.

14 (b) Financial statements prepared in accordance with generally
15 accepted accounting principles.

16 (c) A reconciliation of the total expenditures reported within the
17 financial statements to the total expenditures reported within the
18 expenditure limitation report.

19 B. The auditor general shall provide detailed instructions for
20 completion and submission of the reports described in subsection A of this
21 section. The auditor general shall prescribe definitions for terms
22 ~~utilized~~ USED in and the form of the reports described in subsection A of
23 this section. The reports described in subsection A of this section are
24 required of counties and community college districts beginning with fiscal
25 year 1981-1982. The reports described in subsection A of this section are
26 required of cities and towns beginning with the fiscal year the political
27 subdivision is subject to the expenditure limitation. The annual
28 reporting requirements also apply to political subdivisions subject to an
29 alternative expenditure limitation enacted pursuant to article IX, section
30 20, subsection (9), Constitution of Arizona.

31 C. The reports described in subsection A of this section must be
32 filed with the auditor general within nine months after the close of each
33 fiscal year.

34 D. The auditor general or a certified public accountant performing
35 the annual audit required pursuant to sections 41-1279.21 and 9-481 shall
36 attest to the expenditure limitation reports and financial statements for
37 counties, community college districts and cities. The certified public
38 accountant performing the annual or biennial audit required pursuant to
39 section 9-481 shall attest to the expenditure limitation reports and
40 financial statements for towns.

41 E. Each political subdivision shall provide to the auditor general
42 by July 31 each year the name of the chief fiscal officer designated by
43 the governing board of the political subdivision to submit the current
44 fiscal year's expenditure limitation report. The political subdivision
45 shall notify the auditor general of any changes of individuals designated

1 to file the required reports. The designated chief fiscal officer shall
2 certify to the accuracy of the annual expenditure limitation report.

3 F. The auditor general shall prescribe forms for the uniform
4 reporting system and may provide assistance to individuals, certified
5 public accountants or public accountants responsible for attesting to the
6 expenditure limitation reports and financial statements.

7 G. A chief fiscal officer, designated pursuant to subsection E of
8 this section, who subsequent to July 1, 1983 refuses to file the reports
9 required by this section within the prescribed time periods or who
10 intentionally files erroneous reports is guilty of a class 1 misdemeanor.
11 A city or town exceeding the expenditure limitation prescribed or
12 authorized pursuant to article IX, section 20, Constitution of Arizona,
13 for any fiscal year, without authorization pursuant to such section, shall
14 have the amount specified in subsection H of this section of its
15 allocations of the state income tax, distributed pursuant to section
16 43-206, withheld and redistributed to other cities and towns in the same
17 manner as determined pursuant to that section, except that the population
18 of the city or town exceeding the expenditure limitation shall not be
19 included in the computation, and the city or town exceeding the
20 expenditure limitation shall not be entitled to share in the
21 redistribution. A community college district exceeding the expenditure
22 limitation prescribed pursuant to article IX, section 21, Constitution of
23 Arizona, for any fiscal year, without authorization pursuant to such
24 section or section 15-1471, shall have the amount specified in subsection
25 H of this section of its allocations of state aid, distributed pursuant to
26 section 15-1466, withheld.

27 H. The auditor general shall hold a hearing to determine if any
28 political subdivision has exceeded the expenditure limitations prescribed
29 pursuant to article IX, sections 20 and 21, Constitution of Arizona. If a
30 county has exceeded the expenditure limitations prescribed pursuant to
31 article IX, section 20, Constitution of Arizona, without authorization
32 pursuant to that section, the auditor general shall notify the board of
33 supervisors of the county to reduce the allowable levy of primary property
34 taxes of the county pursuant to section 42-17051, subsection C. If any
35 political subdivision other than a county has exceeded the expenditure
36 limitations prescribed pursuant to article IX, sections 20 and 21,
37 Constitution of Arizona, without authorization, the auditor general shall
38 notify the state treasurer to withhold a portion of the political
39 subdivision's allocations of the revenues described in subsection G of
40 this section for the fiscal year subsequent to the auditor general's
41 hearing as follows:

42 1. If the excess expenditures are less than five percent of the
43 limitation, an amount equal to the excess expenditures.

2. If the excess expenditures are equal to or greater than five percent but less than ten percent of the limitation, or are less than five percent of the limitation but it is at least the second consecutive instance of excess expenditures, an amount equal to triple the excess expenditures.

3. If the excess expenditures are equal to or greater than ten percent of the limitation, an amount equal to five times the excess expenditures or one-third of the allocation of the revenues described in subsection G of this section, whichever is less.

I. A county, city or town is not deemed to have exceeded the expenditure limitation if the county, city or town makes expenditures for capital improvements from utility revenues pursuant to title 9, chapter 5, article 3 or from excise taxes levied by the county, city or town for a specific purpose and the county, city or town repays the expenditure from the proceeds of bonds or other lawful long-term obligations before the hearing required by subsection H of this section.

Sec. 10. Heading change

The article heading of title 41, chapter 7, article 10.2, Arizona Revised Statutes, is changed from "POST AUDIT OF COUNTIES, COMMUNITY COLLEGE DISTRICTS AND SCHOOL DISTRICTS" to "POSTAUDIT OF COUNTIES, COMMUNITY COLLEGE DISTRICTS AND SCHOOL DISTRICTS".

Sec. 11. Section 41-1279.21, Arizona Revised Statutes, is amended to read:

41-1279.21. Powers and duties of auditor general relating to counties, school districts and community colleges

A. In addition to other powers and duties prescribed by law, the auditor general shall:

1. Conduct or cause to be conducted annual financial ~~and compliance~~ STATEMENT audits of financial transactions and accounts kept by or for all counties. FOR A COUNTY THAT IS REQUIRED TO COMPLY WITH THE FEDERAL SINGLE AUDIT REQUIREMENTS, AUDITS SHALL INCLUDE COMPLIANCE AUDITS OF FINANCIAL TRANSACTIONS AND APPLICABLE ACCOUNTS KEPT BY OR FOR THE COUNTY. THE AUDITS SHALL BE CONDUCTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS AND, ACCORDINGLY, SHALL INCLUDE TESTS OF THE ACCOUNTING RECORDS AND OTHER AUDITING PROCEDURES AS MAY BE CONSIDERED NECESSARY UNDER THE CIRCUMSTANCES. Each county shall provide financial information for inclusion in the annual audit that verifies that ARIZONA highway user revenue fund monies received by the county pursuant to title 28, chapter 18, article 2 and any other dedicated state transportation revenues received by the county are being used solely for the authorized transportation purposes.

2. Perform procedural reviews for school districts that are not required to comply with the FEDERAL single audit ~~act of 1984 (P.L. 98-502)~~ REQUIREMENTS at times determined by the auditor general. These reviews

1 may include evaluation of administrative and accounting internal controls
2 and reports on such reviews.

3 3. Conduct or cause to be conducted annual FINANCIAL STATEMENT
4 audits of financial transactions and accounts kept by or for community
5 college districts. FOR A COMMUNITY COLLEGE DISTRICT THAT IS REQUIRED TO
6 COMPLY WITH THE FEDERAL SINGLE AUDIT REQUIREMENTS, AUDITS SHALL INCLUDE
7 COMPLIANCE AUDITS OF FINANCIAL TRANSACTIONS AND APPLICABLE ACCOUNTS KEPT
8 BY OR FOR THE COMMUNITY COLLEGE DISTRICT. THE AUDITS SHALL BE CONDUCTED
9 IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS AND,
10 ACCORDINGLY, SHALL INCLUDE TESTS OF THE ACCOUNTING RECORDS AND OTHER
11 AUDITING PROCEDURES AS MAY BE CONSIDERED NECESSARY UNDER THE
12 CIRCUMSTANCES.

13 4. Approve contracts for financial and compliance auditing services
14 except if specific statutory authority is otherwise provided. The auditor
15 general shall ensure that such contract audits are conducted in accordance
16 with generally accepted governmental auditing standards and shall
17 determine if such audits meet minimum audit standards prescribed by the
18 auditor general. An audit shall not be accepted as meeting the
19 requirements of this paragraph until it has been approved by the auditor
20 general.

21 5. Order and enforce a correct and uniform system of accounting by
22 county, community college district and school district officers and
23 instruct them in the proper mode of keeping accounts of their offices.

24 6. Require of county treasurers and custodians of county, community
25 college district or school district funds, as often as the auditor general
26 deems necessary, a verified statement of their accounts.

27 7. Report to the committee and to the attorney general the refusal
28 or neglect of any county, community college district or school district
29 officer to conform to rules and regulations of the auditor general's
30 office.

31 8. Report to the committee and to the governor the result of the
32 auditor general's examinations of county, community college district and
33 school district offices as often as required by public interest.

34 B. The auditor general may adopt rules providing for disapproving
35 contracts, and suspending or debarring any contractor providing financial
36 and compliance auditing services to a school district based ~~upon~~ ON
37 applicable standards similar to those adopted by this state under section
38 41-2613.

39 C. Notwithstanding any other law, the disapproval of a contract or
40 the suspension or debarment may be appealed to the superior court pursuant
41 to title 12, chapter 7, article 6.

1 Sec. 12. Repeal

2 Section 41-1279.22, Arizona Revised Statutes, is repealed.

3 Sec. 13. Section 41-2954, Arizona Revised Statutes, is amended to
4 read:

5 41-2954. Committees of reference; performance review reports;
6 hearings; recommendations; subpoena powers

7 A. Each standing committee of both legislative houses shall
8 constitute a committee of reference in the committee's respective subject
9 matter areas and the committee's respective house.

10 B. After receipt of the preliminary sunset review report, each
11 committee of reference or each committee of reference meeting jointly
12 shall hold at least one public hearing when the legislature is not in
13 session or before the third Friday in January to receive testimony from
14 the public and from the officials of the agency involved. The agency
15 involved shall prepare a presentation for the first public meeting that
16 addresses the elements of the written statement required by subsection F
17 of this section.

18 C. Each committee of reference shall hold public hearings for the
19 following purposes:

20 1. To determine the actual need of the agency to regulate or direct
21 the particular activity.

22 2. To determine the extent to which the statutory requirements of
23 the agency are necessary and are being met.

24 3. To receive testimony from the public as to the relationship of
25 the agency with the public.

26 4. To receive testimony from the executive director or other head
27 of the agency as to reasons for the continuation of the agency.

28 D. Each committee of reference shall consider but not be limited to
29 the following factors in determining the need for continuation or
30 termination of each agency:

31 1. ~~The objective and purpose~~ KEY STATUTORY OBJECTIVES AND PURPOSES
32 in establishing the agency ~~and the extent to which the objective and~~
33 ~~purpose are met by private enterprises in other states.~~

34 2. ~~The extent to which the agency has met its statutory objective~~
35 ~~and purpose and the efficiency with which it has operated~~ AGENCY'S
36 EFFECTIVENESS AND EFFICIENCY IN FULFILLING ITS KEY STATUTORY OBJECTIVES
37 AND PURPOSES.

38 3. ~~The extent to which the agency serves the entire state rather~~
39 ~~than specific interests~~ AGENCY'S KEY STATUTORY OBJECTIVES AND PURPOSES
40 DUPLICATE THE OBJECTIVES AND PURPOSES OF OTHER GOVERNMENTAL AGENCIES OR
41 PRIVATE ENTERPRISES.

42 4. The extent to which rules adopted by the agency are consistent
43 with the legislative mandate.

44 5. The extent to which the agency has ~~encouraged input from the~~
45 ~~public before adopting its rules and the extent to which it has informed~~

1 ~~the public as to its actions and the expected impact on the public~~
2 PROVIDED APPROPRIATE PUBLIC ACCESS TO RECORDS, MEETINGS AND RULEMAKINGS,
3 INCLUDING SOLICITING PUBLIC INPUT IN MAKING RULES AND DECISIONS.

4 6. ~~The extent to which the agency has been able to investigate and~~
5 ~~resolve~~ INVESTIGATED AND RESOLVED complaints that are within its
6 jurisdiction.

7 7. ~~The extent to which the attorney general or any other applicable~~
8 ~~agency of state government has the authority to prosecute actions under~~
9 ~~the enabling legislation~~ LEVEL OF REGULATION EXERCISED BY THE AGENCY IS
10 APPROPRIATE AS COMPARED TO OTHER STATES OR BEST PRACTICES, OR BOTH.

11 8. ~~The extent to which agencies have addressed deficiencies in~~
12 ~~their enabling statutes that prevent them from fulfilling their statutory~~
13 ~~mandate~~ THE AGENCY HAS ESTABLISHED SAFEGUARDS AGAINST POSSIBLE CONFLICTS
14 OF INTEREST.

15 9. ~~The extent to which changes are necessary in the laws of~~ FOR the
16 agency to ~~adequately comply with the factors listed in this subsection~~
17 MORE EFFICIENTLY AND EFFECTIVELY FULFILL ITS KEY STATUTORY OBJECTIVES AND
18 PURPOSES OR TO ELIMINATE STATUTORY RESPONSIBILITIES THAT ARE NO LONGER
19 NECESSARY.

20 10. The extent to which the termination of the agency would
21 significantly affect the public health, safety or welfare.

22 ~~11. The extent to which the level of regulation exercised by the~~
23 ~~agency compares to other states and is appropriate and whether less or~~
24 ~~more stringent levels of regulation would be appropriate.~~

25 ~~12. The extent to which the agency has used private contractors in~~
26 ~~the performance of its duties as compared to other states and how more~~
27 ~~effective use of private contractors could be accomplished.~~

28 ~~13. The extent to which the agency potentially creates unexpected~~
29 ~~negative consequences that might require additional review by the~~
30 ~~committee of reference, including increasing the price of goods, affecting~~
31 ~~the availability of services, limiting the abilities of individuals and~~
32 ~~businesses to operate efficiently and increasing the cost of government.~~

33 E. The committee of reference shall deliver the final sunset review
34 report of its recommendations to the president of the senate, the speaker
35 of the house of representatives, the governor, the auditor general and the
36 affected agency on or before the third Friday in January. Such
37 recommendations shall include one of the following:

- 38 1. That the state agency be continued.
39 2. That the state agency be revised or consolidated.
40 3. That the state agency be terminated pursuant to this chapter.

41 F. The final sunset review report by each committee of reference
42 shall also include a written statement prepared by the agency involved
43 that contains AN ASSESSMENT OF:

44 1. ~~An identification of the problem or the needs that the agency is~~
45 ~~intended to address.~~

1 ~~2. A statement, to the extent practicable, in quantitative and~~
2 ~~qualitative terms, of the objectives of such agency and its anticipated~~
3 ~~accomplishments.~~

4 ~~3. An identification of any other agencies having similar,~~
5 ~~conflicting or duplicate objectives, and an explanation of the manner in~~
6 ~~which the agency avoids duplication or conflict with other such agencies.~~

7 1. THE EXTENT TO WHICH THE AGENCY POTENTIALLY CREATES UNEXPECTED
8 NEGATIVE CONSEQUENCES THAT MAY REQUIRE ADDITIONAL REVIEW BY THE COMMITTEE
9 OF REFERENCE, INCLUDING INCREASING THE PRICE OF GOODS, AFFECTING THE
10 AVAILABILITY OF SERVICES, LIMITING THE ABILITIES OF INDIVIDUALS AND
11 BUSINESSES TO OPERATE EFFICIENTLY AND INCREASING THE COST OF GOVERNMENT.

12 2. THE EXTENT TO WHICH THE AGENCY HAS ADDRESSED DEFICIENCIES IN ITS
13 ENABLING STATUTES.

14 ~~4. 3. An assessment of The consequences of eliminating the agency~~
15 ~~or of consolidating it with another agency.~~

16 G. Each committee of reference shall oversee the preparation of any
17 proposed legislation to implement the recommendations of that committee of
18 reference and is responsible for the introduction of such legislation.

19 H. If an agency is continued, it is not necessary to reappoint any
20 member of the governing board or commission of the agency. Such members
21 are eligible to complete their original terms without reappointment or
22 reconfirmation.

23 I. Each committee of reference shall have the power of legislative
24 subpoena pursuant to chapter 7, article 4 of this title.

Passed the House March 4, 20 19

by the following vote: 59 Ayes,

0 Nays, 1 Not Voting

W. R. Brown
Speaker of the House

☒ Pro Tempore

Jim Drake
Chief Clerk of the House

Passed the Senate May 6, 20 19

by the following vote: 25 Ayes,

4 Nays, 1 Not Voting

Harvey Farn
President of the Senate

Susan Owens
Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

_____ day of _____, 20 _____

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

at _____ o'clock _____ M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this _____ day of _____, 20 _____

at _____ o'clock _____ M.

Secretary of State

H.B. 2677

HOUSE CONCURS IN SENATE
AMENDMENTS AND FINAL PASSAGE

_____, May 9, 2019,

by the following vote: 28 Ayes,

30 Nays, 2 Not Voting

FAILED

Speaker of the House

Jim Drake
Chief Clerk of the House

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor this

_____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

_____, 20____,

at _____ o'clock _____ M.

Governor of Arizona

H.B. 2677

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

HOUSE CONCURS IN SENATE
AMENDMENTS AND FINAL PASSAGE

Passed the House May 23, 2019

by the following vote: 60 Ayes,

0 Nays, 0 Not Voting

[Signature]
Speaker of the House

☐ Pro Tempore

[Signature]
Chief Clerk of the House

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

23rd day of May, 2019

at 4:02 o'clock P M.

[Signature]
Secretary to the Governor

Approved this _____ day of

at _____ o'clock _____ M.

VETO

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this _____ day of _____, 20____

at _____ o'clock _____ M.

ON RECONSIDERATION
H.B. 2677

Secretary of State